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OPEN MEETING AGENDA ITEM

ORIGINAL

May 25, 2013

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Commissioners Stump, Pierce, Burns, Bitter Smith; R. Burns
 Arizona Corporation Commission
 1200 W. Washington - 2nd Floor
 Phoenix, Arizona 85007

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AZ CORP COMMISSION
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Via E-mail Pierce-web@azcc.gov; Burns-web@azcc.gov; Stump-web@azcc.gov; BitterSmith-web@azcc.gov; RBurns-web@azcc.gov

Commissioners,

I am writing to request that you consider changing the present "Cost Plus Profit" rate and surcharge structure to one that "Pays for Performance" and that you act to compel and reward Utilities to significantly reduce costs via the establishment of local (within/adjacent to distribution infrastructure) large scale solar facilities that include storage solutions utilizing the current costs and subsidies of fossil fueled generation provided by Commission approved surcharges (PPFAC; ECA; TOU/Demand). For Tucson Electric Power (TEP) those surcharges result in more than \$1B of recurring annual charges to ratepayers. My references are particular to TEP but are applicable to all utilities.

These actions by the Commission will enable our utilities to earn shareholder profits and also optimize benefits to Ratepayers as intended by our State constitution.

The performance based rate structure would be similar to the current structure in that all current costs, even those such as wages that may not be "reasonable", would be recovered by the Base Rate and Surcharges; however, neither fee nor profit would be included in those Ratepayer charges. While maintaining current service requirements Utilities would earn their fees and profit based on the sharing of reductions in the costs included in the base rate & surcharges with Ratepayers. For example, if the utility reduces costs by 10%, the rate would be reduced by 6% providing the utility with 4% profit or fee. This action will motivate utilities to adopt a continuous improvement culture that provides both shareholder and ratepayers with recurring benefits and performance, reduce obfuscation and protectionist strategies, and provide similar, perhaps superior, results as deregulation which can result in excess capacity (cost), legal and customer service complexities and costs.

The phase-out of surcharges that subsidize fossil fuel technologies would also promote Utilities to adapt and evolve; honestly and sincerely consider and deploy the least expensive intermediate to long term generation technologies and to reduce the "external" costs charged to Ratepayers as Taxpayers as a direct result of the generation technology, which eventually end up in the rate base as demonstrated by the new "Environmental Compliance Adjuster" surcharge.

Utility procurements of the large scale local solar electric generation facilities should include preferences for the Suppliers to utilize local construction services, component manufacturing, and a REQUIREMENT to provide economically feasible electricity storage solutions. Utilities, like free market "Original Equipment Manufacturers", possess the "buying power" and rewards for the market to provide needed solutions.

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Local Solar electric generation by our Utilities would provide significant recurring benefits and reductions in costs and charges to Ratepayers:

- Avoid perpetual increases and enable eventual elimination of costs and Ratepayer charges for fuel (PPFAC \$400M/year; Global demand for coal will increase cost)
- Reduction in the run-rate of the Springerville coal-fired base load plant:
 - Lower emissions and elimination of the need for the recurring Environmental Compliance Adjuster(ECA; \$350M)
 - Reduce precious water loss to evaporation; 3/4 gallon/kWh, as much as 7B gallons/year at current TEP sales, and 10-50x more costly alternative water sources and charges to ratepayers
 - Conserve, eliminate or reduce expensive transmission infrastructure and loss of energy associated with long distance transmission
 - Mitigate coal ash transportation from Tucson to Springerville, disposal, storage costs, risk and costs associated with groundwater contamination
 - Enable a more equitable Customer Class rate structure that presently shifts costs from 43 Mining/Industrial Customers who pay less than 5c/kWh to the +400,000 Residential Customers that pay 12c/kWh.
- Improved system reliability and *Line-Balancing* complexity; Multiple local generation facilities, versus one remote base load plant and transmission path, would reduce system vulnerability, the complexity of line-balancing and associated risk and costs of cascading system failures, "black-outs" similar to that caused by APS several years ago.
- Create a significant external revenue opportunity. When Federal carbon penalties are implemented, the Renewable Energy Credits can be sold, perhaps at 2c/kWh, and used to offset about 17% of a Residential ratepayers current cost.
- Local generation adjacent to and within population centers conserves and protects our pristine land and wilderness.
 - Local governments already own/control land suitable for the siting of these facilities; if for public good can be re-purposed, and low-no cost long term use leases established.
- Large scale multi-year procurement of solar electric facilities can be achieved at a fixed cost that is similar to the Market Conventional Cost of Comparable Generation which continues to increase at about 4% per year.

Storage solutions would provide "dispatchable" on-demand electricity and reduce the amount of recurring and perpetually increasing Demand and Time-of-Use charges (est. >\$600M/year); reduce current Balancing Authority (Load and Generation) complexities, risk of cascading "black-outs" and associated costs similar to that initiated by APS several years ago; and improve "system reliability" and "End-of-Grid" (No alternate delivery/transmission path) conditions. The large scale annual cost (depreciation) when purchased as part of the solar electric generation procurement should not be greater than the present annual demand/TOU charges, and will decrease as the technology reaches maturity; and that cost is fixed, no fuel required, while the cost of natural gas, a global commodity, for "peakers" will increase significantly.

These cost reduction actions would reduce the potential savings and motivation for a Customer to self-generate, create higher wage jobs and promote the population growth

necessary to retain and increase Utility sales which optimizes recovery of fixed costs and enables lower price per kilowatt-hour. The population growth would also increase the value of homes, increase local money supply and trading, to generate tax revenues necessary to sustain our community, without the need to increase taxpayer (ratepayer) rates and financial burden. Reduced electricity costs will also increase discretionary income and expenditures further providing beneficial local economic stimulus.

The higher wage local jobs will also enable our community to retain our university and college graduates, critical for establishment of a prosperous and sustainable community. The community that nurtures and develops the manufacturing of storage component solutions will enjoy significant recurring economic stimulus via sales to North America and rest of the world.

As a matter of survival, these "*Darwinist*" disruptive technology market adaptations and transitions are performed routinely by best-in-class private sector competitive market corporations. Our utilities presently enjoy the highest average wage of all Arizona industries; they employ or can employ the best and the brightest, are quite capable of earning those benefits, providing increased value to their Customers AND Ratepayers, if their leadership is properly motivated and rewarded to do so.

In closing, I am requesting that the Commission consider:

a) Restructure of the current "Cost Plus Profit" rate/surcharges, to establish a "Pay for Performance" rate structure, that optimizes benefit to the Ratepayer;

b) Requiring Utility development of 5-year plans that would utilize Federal Clean Technology grants and cost reductions in current rates/surcharge revenues to fund the deployment of local solar electric generation and electric storage solutions to service major population center loads within their territories. Upon completion of those actions, to ultimately reduce, at least stabilize, current rates/surcharges, sharing those reductions with Ratepayers and Utility shareholders as the Commission deems appropriate.

Sincerely,



Mr. Terry Finefrock, CPIM
AZ Ratepayer; Long Term Tucson area resident;
Former corporate high technology manufacturing director;
Solar electric advocate

Copies:

Steven M. Olea, ACC Utilities Director solea@azcc.gov

Jodi Jerich, ACC Executive Director jjerich@azcc.gov